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FISCAL IMPACT STATEMENT

LS 6277 | **NOTE PREPARED:** Mar 27, 2007
BILL NUMBER: SB 88 | **BILL AMENDED:** Feb 22, 2007

SUBJECT: Pensions.

FIRST AUTHOR: Sen. Weatherwax | **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Porter

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill:

(1) removes the earnings limitation for a member of the Teachers' Retirement Fund (TRF) who is reemployed more than 90 days after the member's retirement in a TRF-covered position;
(2) provides that neither the retired member nor the member's employer makes contributions to TRF for the period of the member's reemployment; and
(3) provides that the member does not earn creditable service in TRF and is not entitled to an additional benefit from TRF for the period of reemployment.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) This proposal could result in a small cost to TRF, on the order of 0.01% of payroll, provided that the number of individuals reemployed each year remains about the same as it is now. The payroll used for the July 1, 2006, actuarial valuation amounted to approximately $3.8 B, with 0.01% of that amount totaling $380,000. The fund affected is the state General Fund. However, the specific impact is indeterminable and will depend upon the interplay of factors discussed below.

The actuaries for the TRF stated that data upon which to make a detailed actuarial analysis are not available. Eliminating an earnings limit generally adds to retirement system costs since more benefits are paid from the retirement system without the limit, unless some other offsetting provision is also adopted. This bill removes the earnings limit and the employer contributions (for 1996 Fund members) which provide additional income to TRF during reemployment. Both of these changes add cost. The accrual of additional benefits during reemployment also is being eliminated which saves money. These factors (e.g., limit with contributions vs.

additional benefits) act to offset each other. Whether or not this proposal produces a cost or a savings for TRF depends on how these two factors relate to each other.

There are about 25 individuals who are reemployed and subject to the earnings limit. At least 50% of these members are in the 1996 Fund, which means that employer contributions are received for roughly half of the reemployed members.

Based on a very rough analysis of data provided for average newly retired members (as of June 30, 2006), the actuaries for TRF stated that the money saved by having an earnings limit combined with the additional contribution income (provided under the current program) *does* offset the increase in TRF costs resulting from the additional incremental benefits received by the reemployed members. This proposal could result in a small cost to ISTRF, on the order of 0.01% of payroll, provided that the number of individuals reemployed each year remains about the same as it is now. The payroll used for the July 1, 2006, actuarial valuation amounted to approximately $3.8 B, with 0.01% of that amount totaling $380,000. The fund affected is the state General Fund.

If future retirees are mostly from the 1996 Fund or if the number of members reemployed each year should increase substantially, cost would be more significant than shown above.

Based on experience with other large teacher retirement systems, removing the earnings limitation could lead to an increase in the number of members who return to work. In addition, members may be motivated to retire earlier than planned because they will be able to receive full benefits and a salary (even though no additional benefits are accrued). According to the actuaries, school districts would benefit in the case of 1996 Fund members who retire and then return to work because contributions would no longer need to be remitted for these members. If retirements increase as a result of this proposal, costs will be higher than shown above.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*, above.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: Local school corporations.

Information Sources: Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.

Fiscal Analyst: James Sperlik, 317-232-9866.